

Office of the Comptroller of the Treasury

December 2003

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Financial/compliance audits of state departments and agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.



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December 31, 2003

Members of the General Assembly
and
The Honorable John G. Morgan
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Office of the Comptroller of the Treasury for the year ended June 30, 2003.

Since we are not independent with respect to the Office of the Comptroller of the Treasury, we do not express any assurance on internal control and on compliance. The consideration of the internal control structure and tests of compliance disclosed no major deficiencies.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj
03/094

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit Office of the Comptroller of the Treasury

AUDIT SCOPE

We have audited the Comptroller of the Treasury for the period July 1, 2002, through June 30, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, accounts receivable, expenditures, equipment, property tax relief, and state assessed properties.

The auditors are not considered independent of the audited entity because they are employees of the Comptroller of the Treasury.

AUDIT FINDINGS

The audit report contains no findings.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, please contact

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Audit Report

Office of the Comptroller of the Treasury

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Office of the Comptroller of the Treasury

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Office of the Comptroller of the Treasury. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. The functions and duties of the office are assigned through various legislative enactments.

The Office of the Comptroller of the Treasury is organized into several divisions to discharge its statutory duties. The basic functions of each division are described below.

The Division of Administration provides direction, coordination, and supervision to the various divisions within the Comptroller’s Office and represents the Comptroller on various boards and commissions.

The Office of Management Services provides administrative and support services to the divisions of the Comptroller’s Office in areas of accounting, budgeting, payroll and personnel, information systems, and printing. The office assists the Comptroller in policy and contract matters and provides staff support for several boards and commissions.

The Division of State Audit conducts financial and compliance and performance audits, conducts investigations, and performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with information about the state’s financial condition and the performance of the state’s many agencies and programs.

The Division of County Audit is responsible for annual audits of all 95 counties in the state. The division establishes standards for county audits conducted by public accounting firms. The division assists local governments with financial administration questions.

The Division of Municipal Audit ensures that municipalities, designated school system funds, utility districts, and government-funded non-profit agencies are audited as required by state statute. The division investigates and issues reports on allegations of misconduct, fraud, or waste in local government, often referring findings to other agencies for appropriate action.

The Division of Bond Finance manages the state debt, including issuance of all bonds and notes and payment of such debt. This division serves as staff for the State Funding Board, State School Bond Authority, Tennessee Local Development Authority, and Bond Finance Committee of the Tennessee Housing Development Agency.

The Offices of Research and Education Accountability prepares reports at the request of the Comptroller and the General Assembly on various state and local government issues. The Office of Education Accountability monitors the performance of Tennessee's elementary and secondary school systems and provides the General Assembly with reports on selected education topics.

The Division of Local Finance approves certain debt obligations of local governments, approves budgets of local governments which have certain debt obligations outstanding, and assists local governments with other debt and financial management issues.

The Office of State Assessed Properties annually appraises and assesses all public utility and transportation properties as prescribed in Section 67-5-1301, *Tennessee Code Annotated*. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.

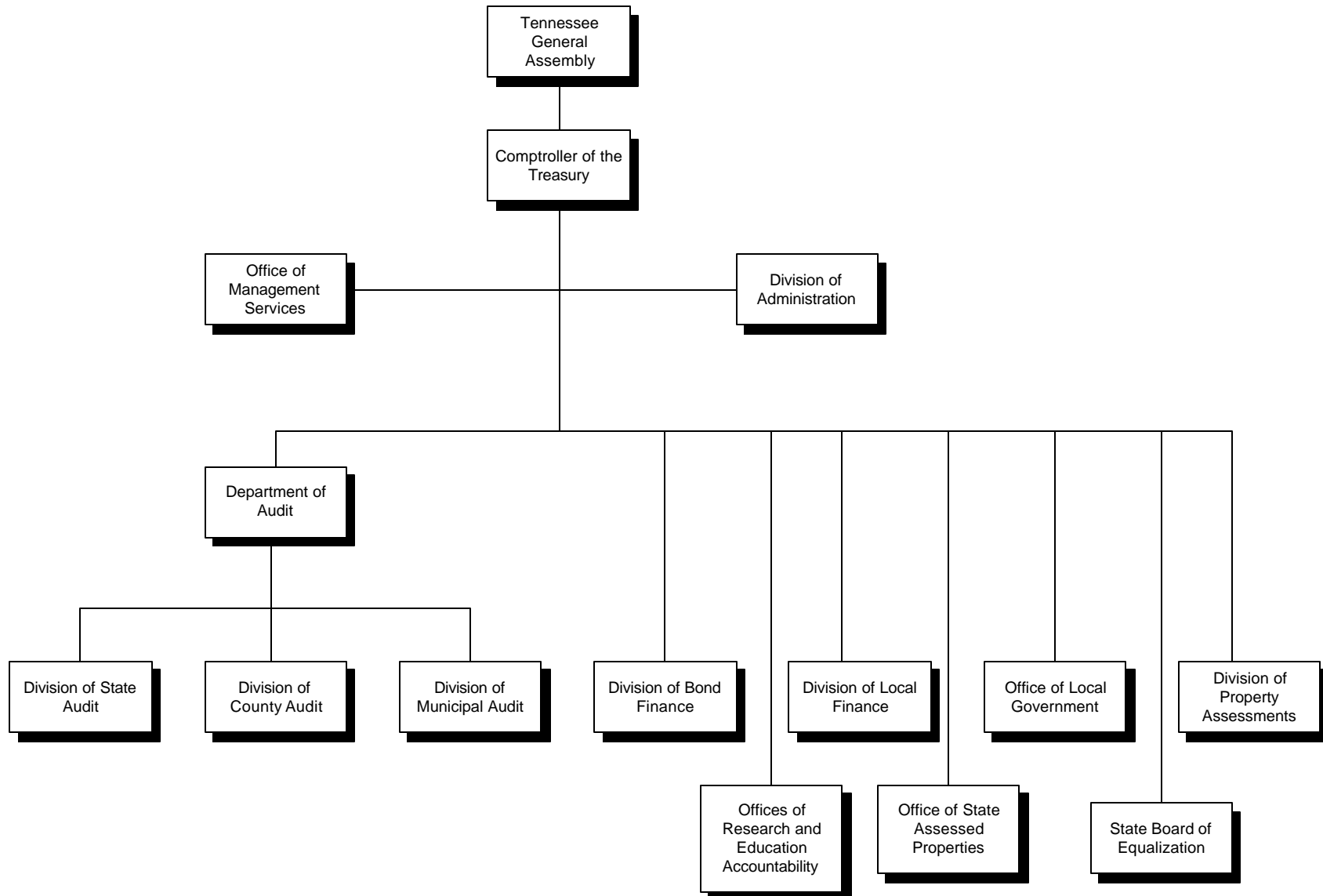
The Office of Local Government provides technical assistance to local governments in redistricting efforts and in establishing precincts, maintains county precinct information, and provides mapping services.

The State Board of Equalization is responsible for assuring constitutional and statutory compliance in assessments of property for ad valorem taxes. The board establishes rules and hears public utility assessment appeals.

The Division of Property Assessments assists local governments in assessment of property for tax purposes and administers the property tax relief program, which provides reimbursements to low-income elderly or disabled persons and certain disabled veterans or their surviving spouses.

An organization chart of the office is on the following page.

OFFICE OF THE COMPTROLLER OF THE TREASURY



AUDIT SCOPE

We have audited the Comptroller of the Treasury for the period July 1, 2002, through June 30, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, accounts receivable, expenditures, equipment, property tax relief, and state assessed property.

The auditors are not considered independent of the audited entity because they are employees of the Comptroller of the Treasury.

OBJECTIVES, METHODOLOGIES, AND RESULTS

REVENUE

Our objectives in reviewing revenue controls and transactions were to determine whether

- revenue transactions appeared correct and valid,
- cash collected during the fiscal year was deposited timely and accounted for in the appropriate fiscal year, and
- fees had been billed correctly and the proper amount was received and recorded correctly.

We tested a non-statistical sample of revenue transactions for proper support and for compliance with the appropriate requirements relating to receipting, recording, and depositing funds. Also, the transactions were tested for compliance with the Department of Finance and Administration's policy for timely deposit and the appropriate fiscal year. We tested a non-statistical sample of tax billings to determine if they were properly billed, received, and recorded.

Based on the testwork, it appears that revenue transactions were correct and valid. Cash collected during the audit period was deposited timely and accounted for in the proper fiscal year. In addition, we determined fees were charged, received, and recorded correctly.

ACCOUNTS RECEIVABLE

Our objectives in reviewing accounts receivable transactions were to determine whether

- receivables shown on the books were actual receivables, and whether cash had not already been received to reduce the amounts;
- management performed adequate collection efforts;
- write-off procedures were adequate; and
- receivables were stated at the net realizable amount.

We tested a non-statistical sample of account balances and sent confirmations to customers in order to determine the validity of the account balances as of May 31. We reviewed management's policies for collection of delinquent accounts and write-off procedures. We also reviewed credit balances.

Our review and testwork indicated that uncollected revenue amounts were recorded as receivables and stated at the proper amount. We determined that collection efforts and write-off procedures appeared adequate. Receivables appeared valid and stated at the net realizable amount.

EXPENDITURES

Our objectives in reviewing expenditure controls, procedures, and transactions were to determine whether

- expenditures for goods or services have been identified and recorded correctly,
- recorded expenditures were for goods or services authorized and received,
- payments were made in a timely manner,
- the office reconciled its expenditure records with Department of Finance and Administration accounting reports,
- payments for travel were made in accordance with the Comprehensive Travel Regulations,
- contracts were made in accordance with regulations and were in compliance with applicable terms and guidelines,
- funds encumbered were liquidated for the same purpose as the original encumbrance, and

- procedures regarding year-end cutoff of encumbrances and accounts payable were adequate to reflect proper amounts and all material outstanding obligations.

We tested non-statistical samples of expenditures for approvals and evidence of receipt. We tested the expenditures, including contract and travel, for accurate recording, timely payment, and compliance with applicable laws and regulations. We also tested the liquidation of encumbrances through May 31 and reviewed reconciliations of office records with the Department of Finance and Administration accounting reports. We reviewed year-end procedures.

As a result of our testwork, we determined that expenditures were recorded correctly and were for goods authorized and received. We determined that payments were made timely and were in compliance with applicable laws and regulations. Also, encumbered funds were liquidated properly, and the office's records were reconciled with Department of Finance and Administration accounting reports. Year-end procedures appeared adequate.

EQUIPMENT

Our objectives in reviewing equipment were to determine whether

- purchases of equipment were accurately recorded on the inventory systems,
- the office's equipment listing agreed to the state's property listing,
- depreciation methods provide for accurate and correct adjustments,
- equipment was properly safeguarded,
- equipment was properly recorded on the property listing, and
- equipment could be located.

We tested non-statistical samples of equipment purchased during the audit period and equipment included on the property listing at the time of the audit. A sample of equipment purchased during the period was located, the serial and state tag numbers were traced to the equipment listing, and the supporting documents were reviewed and compared to the equipment listing to ensure proper recording. Supporting documentation for items removed from the listing during the audit period was also reviewed, and the depreciation calculation methods were reviewed.

Based on testwork, equipment purchased during the period was accurately and properly recorded on the property listing and the inventory system. The equipment listing agreed to the state's property listing. The equipment selected for testwork was located and appeared to be properly safeguarded. Based on our review of depreciation calculation methods, it appears that assets are being properly expensed.

PROPERTY TAX RELIEF

Our objectives in reviewing the property tax relief program were to determine whether

- property tax relief payments were made to eligible individuals,
- property tax relief payments made to ineligible individuals were collected, and
- controls over the property tax relief process were adequate.

We tested a non-statistical sample of tax relief payments to verify that the proper documentation was on file to show the recipient's eligibility for the payments. In addition, we tested returned warrants and cancelled warrants to determine propriety of cancellations.

Based on testwork, tax relief payments appear to have been made to eligible individuals, returned and cancelled warrants appear to be supported, and controls over the property tax relief process appeared adequate.

STATE ASSESSED PROPERTIES

Our objectives in reviewing state assessed properties were to determine whether

- property assessments were performed within the appropriate time frames,
- exceptions were filed within the appropriate time frame, and
- property tax rolls and billing statements were produced by their respective deadlines.

We tested a non-statistical sample of assessments to verify that the assessments were completed and filed timely. We tested exceptions to ensure they were filed within the correct time frame. We verified the dates the property tax rolls and billing statements were produced.

Our review indicated assessments were performed and exceptions were filed within the proper time frame. Property tax rolls and billing statements were also produced by the deadline. Although we had no findings related to State Assessed Properties, a minor weakness was reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year.

Our objective was to determine whether the department's June 30, 2002, and June 30, 2003, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2003, responsibility letter submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letters were submitted on time.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Office of the Comptroller of the Treasury divisions and allotment codes:

307.01	Division of Administration
307.02	Office of Management Services
307.03	Capitol Print Shop
307.04	Division of State Audit
307.05	Division of County Audit
307.06	Division of Municipal Audit
307.07	Division of Bond Finance
307.08	Office of Local Government
307.09	Division of Property Assessments
307.10	Tax Relief Program
307.11	State Board of Equalization
307.12	Division of Local Finance
307.14	Offices of Research and Education Accountability
307.15	Office of State Assessed Properties

APPENDIX (CONT.)

The Comptroller is a member of the following:

Access Improvement Project Committee
Advisory Commission on Intergovernmental Relations
Advisory Committee to Monitor Internet
Baccalaureate Education System Trust
Board of Claims
Board of Equalization
Board of Standards
Building Commission
Child Care Facilities Corporation
Consolidated Retirement System Board of Trustees
Council on Pensions and Insurance
Emergency Communications Board
Funding Board
Governor's Council on Health and Physical Fitness
Health Facilities Commission
Higher Education Commission
Housing Development Agency
Industrial Development Authority
Industrial Finance Corporation
Information Systems Council
Library and Archives Management Board
Local Development Authority
Local Education Insurance Committee
Local Government Insurance Committee
Public Records Commission
Publications Committee
Review Committee
School Bond Authority
Security for Public Deposit Task Force
Sports Festivals, Inc.
State Capitol Commission
State Government Improvement Task Force
State Insurance Committee
State Trust of Tennessee Board of Directors
Student Assistance Corporation
Tollway Authority
Tuition Guaranty Fund Board
Utility Management Review Board
Water/Wastewater Financing Board
Workers Compensation Insurance Fund Board